

COMMUNITY DEVELOPMENT COMMISSION

May 3, 2007

To: Each Supervisor

From: Carlos Jackson, Executive Director

SUBJECT: RESPONSE TO HUD ON FINANCIAL AUDIT OF SECTION 8 PROGRAM

Attached is a copy of the response transmitted to the Department of Housing and Urban Development (HUD) on April 30, 2007, regarding our financial management review. This coincides with my earlier submission of the audit report to you, and formally responds to the findings and observations that HUD has made.

The response in the attached document is similar to what was previously expressed in the April 11, 2007 memo. Of the four findings, three have already been addressed and corrective actions are in place. We anticipate closure on the fourth finding by June 30, 2007.

This is one of four reports we are anticipating from HUD. The Office of Inspector General (OIG) report on inspections was forwarded to your office on March 30, 2007. As of today, we are still awaiting responses from HUD on the Corrective Action Plan and the OIG report on annual re-examinations.

Should you have any questions or require additional information, please contact me at (323) 890-7400. Thank you.

CJ:KRS

Attachment

c: Board Deputies



**COMMUNITY DEVELOPMENT COMMISSION
of the County of Los Angeles**

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Carlos Jackson
Executive Director

April 30, 2007

Mr. Miguel A. Fontanez-Sanchez, Director
Financial Management Division
U.S. Department of Housing and Urban Development
451 7th Street, SW, Room 4232
Washington, DC 20410-6000

Dear Mr. Fontanez-Sanchez:

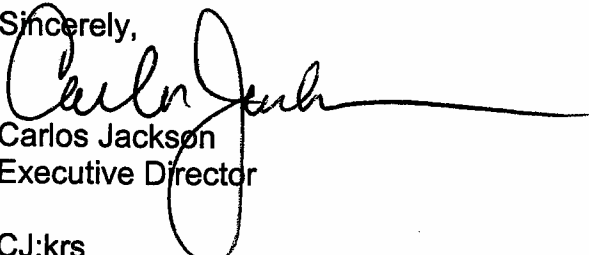
We have reviewed the Limited Financial Management Review Report summarizing HUD's findings and observations on the Section 8 programs administered by the Housing Authority of the County of Los Angeles (HACoLA). The results of the review were very complimentary towards our accounting and financial records, which is indicative of our current operations/management team now in place.

Attached is HACoLA's response to your report, including corrective actions to be taken. We are identifying enhancements to our internal controls, which will preclude these deficiencies from occurring again in the future.

We generally concur with the recommendations that have been made and have been proactive in implementing correction actions to address these deficiencies. HACoLA is in the process of implementing corrective actions to mitigate possible consequences for non-compliance with program requirements. We have considered the observations made, and are implementing corrective actions as indicated on our attached report. We sincerely appreciate the suggested improvements to our programs, and continually strive to enhance our operations.

I appreciate your staff's professionalism and courtesy in conducting this review. HACoLA continues to benefit from the working relationships that were established.

Sincerely,


Carlos Jackson
Executive Director

CJ:krs

Attachment

c: Board of Supervisors
Robert H. Boepple, Senior Advisor, Financial Management Division, HUD DC
K.J. Brockington, Acting Director, Los Angeles PIH

Strengthening Neighborhoods • Supporting Local Economies • Empowering Families • Promoting Individual Achievement



**Responses to Findings and Observations
Office of Housing Voucher Programs'
Limited Financial Management Review**

FINDING No. 1 - Board Resolutions for Administrative Plan and Policies/Procedures

HUD REQUIRED ACTIONS

Provide copy of Board minutes or Resolutions, which adopted the Administrative Plan dated July 1, 2006 and written policies/procedures. Ensure all changes are adopted timely and that written policies and procedures are readily available for staff use.

RESPONSE

The adopted board minutes from March 28, 2006 were transmitted via email to your office on April 10, 2007. There seems to have been an internal error either in the software that was downloaded by your staff or by HACoLA in not providing this to you at the time of your visit since it is required to be completed in order to accept HUD funding in Fiscal Year 2006-2007.

FINDING No. 2: Cost Allocation Policy

HUD REQUIRED ACTIONS

Ensure the draft cost allocation methodology and plan are documented, and approved by the Board. Provide a copy of the Board minutes or Resolution, which adopt the Cost Allocation Principles. Subsequent changes also need to be documented approved and adopted. Allocate costs during the first year of revenue, instead of the second year for new grant/programs. Ensure details are available for future review.

RESPONSE

It was our belief that the annual budget submission met the criterion; however, after discussions with your staff we have agreed to include a separate resolution with the Fiscal Year 2007-2008 budget Board letter requesting formal approval of our cost allocation plan. A copy of the resolution was provided to your staff via email on April 9, 2007 for review prior to filing and was verbally approved for content. The Fiscal Year 2007-2008 budget board letter will include the required recommendation for formal approval of our cost allocation methodology and plan. A copy of the approved Board resolution and minutes will be forwarded to HUD, and all subsequent changes will be documented, approved and adopted.

FINDING No. 3: Internal Control Policy

HUD REQUIRED ACTIONS

Update existing Internal Control procedures, dated July 1997. Separate duties especially during the check writing process, to ensure adequate internal control exist to protect the integrity of Housing Assistance Payments. HACoLA should adhere to the existing signature policy. Provide training to responsible program staff.

RESPONSE

The existing Internal Control procedures for check processing will be updated by June 30, 2007. HACoLA will ensure proper controls are included in the policy and responsible staff will be provided training as needed. An interim policy is currently in place which addresses the referenced weaknesses. Existing written internal control procedures are currently being reviewed and modified to address recent reorganization. Necessary and appropriate training will be provided to staff.

FINDING No. 4: General Depository Agreement

HUD REQUIRED ACTIONS

HACoLA must ensure federal funds are properly collateralized, and shall be required to transfer all accounts with federal funds on deposit should be BoA fail to execute the required for HUD-51999 (including Section 12)

- a. Execute form(s) HUD-51999 for all accounts with federal funds on deposit.
- b. Obtain a list of specific securities, by entity, used as collateralized
- c. Submit executed forms HUD-51999, with original signature, along with the security listing from 4b to the local Field Office.

RESPONSE

HACoLA is currently working with Bank of America's Legal Department to get Form HUD-51999 executed. In addition, we are working with Bank of America's Collateralization Department to obtain a list of specific securities, by entity, used as collateralization.

OBSERVATION No. 1 - Balance Sheet Analysis:

HUD RECOMMENDED ACTION

HACoLA should contact the REAC financial analyst to inquire whether the FDS submissions should be revised to include accrued balances from previous years.

RESPONSE:

HACoLA respectfully disagrees with your comments and recommendation regarding this issue. We would like to reiterate that all post GASB 34 financial data schedules (FDS) have been and will continue to be prepared using the accrual basis of accounting. There is no difference between FDS and the balance sheet provided by HACoLA accounting system as of June 30, 2006.

PIH Notice 2006-3 states that starting January 1, 2005, excess budget authority disbursed to PHAs that is not utilized to pay Housing Assistance Payments (HAP) will become part of the undesignated fund balance account in accordance with Generally Accepted Accounting Principles (GAAP). PHA is required to recognize all HAP funding as revenues for the fiscal year.

OBSERVATION No. 2 - Housing Assistance Payments (HAP):

HUD RECOMMENDED ACTION

HACoLA should ensure reexamination of tenant eligibility for existing families is started 120 days prior to, and completed by, the anniversary date. To complete all delinquent reexaminations, leasing levels should be adjusted to those that can be supported by available funding.

RESPONSE

HACoLA has reviewed the CFR notices cited and has found no requirement to terminate HAP payments for delinquent re-exams. Given that HUD still allows a 5% delinquency to be a high-performer for SEMAP, it doesn't seem feasible to expect us to terminate HAP payments during the re-exam period.

HACoLA does not allow HAP payments to be made in absence of a HAP contract. Once the annual renewal has expired, our contract automatically converts to a month-to-month contract; therefore, we are never without a contract at any time. In fact, the Section 8 Administrative Plan addresses the discontinuation of housing assistance payments when a participant is not complying with the terms and conditions of the contract:

In Section 12.2.3 of the Administrative Plan, it says, "If a family fails to complete or return the required re-examination documents within the specified timeframe, the Housing Authority will schedule the family for a mandatory appointment. The appointment letter will provide the date and time of the appointment and a list of items that family will need to bring. Additionally, the appointment letter will serve as a proposed termination notice and will contain the date of termination as well as a specified timeframe to request an informal hearing." Continuing, it says, "*If the family fails to attend the appointment or fails to bring all the required information and has not requested an informal hearing, Housing Assistance Payments **will be stopped.***" In these cases where the participant does not comply with the program requirements, the payments are stopped.

With respect to the leasing activity and the backlogs of delinquent re-exams, HACoLA had approximately 4,700 delinquent re-exams in October 2006. Today, the delinquent re-exams total 603, and the ongoing workload is current with only 267 re-examinations off of current pace. All previously delinquent re-exams will be completed this week.

The re-organization of the division has structured staff so that the Applications and Eligibility Unit operates in a semi-autonomous mode from Contract Maintenance Unit. Our leasing goals are intended to maximize the allocation of vouchers and dollars in the community to the maximum extent funded. These leasing goals are not negatively impacted by our focus in the Contract Maintenance area; however, we will monitor the situation and be prepared to make adjustments to our management plans as needed, advising HUD of any significant changes.

We have adjusted our schedules for the handling of annual re-exams. We are currently starting the reexamination process at 120 days prior to the contract expiration date. As of April 19, 2007, HACoLA was at a 9% delinquency rate, and anticipate being at 5% or less by June 30, 2007.

OBSERVATION No. 3 - Quality Controls:

HUD RECOMMENDED ACTION

Implement written procedures to ensure quality control is standardized and completed on a regular basis, and includes verification of written documentation and system information.

RESPONSE

A pilot program for quality control was conducted in March and results are currently being analyzed to determine how best to standardize and implement the quality control plan. We anticipate completion of the process with a plan in place by June 30 and expect to update and review as needed every 6 months thereafter.

OBSERVATION No. 4: Internal Controls:

HUD RECOMMENDED ACTION

Update existing Internal Audit procedures to ensure consistence and compliance with changes in federal requirements. Provide training to all staff.

RESPONSE

Existing written internal control procedures are currently being reviewed and modified to address recent reorganization. This includes reviewing the ability of

all caseworkers and first line Section 8 Supervisors having the ability to input owner data and HAP payment requests into the system.

As pointed out in the report for the HAP check run, the same person is responsible for check printing and check signing, however it should be noted that internal controls have always been in place to account for check usage, both at the beginning and end of the check run. A log is maintained to account for all checks, used and unused or checks that may have been damaged. Segregation of duties for HAP check printing is in place now. HACoLA will adhere to the existing signature policy and provide training to responsible program staff.

OBSERVATION No. 5: Independent Auditors:

HUD RECOMMENDED ACTION

HACoLA should consider having the IA incorporate items of significant importance from the County's reports when conducting the independent audit.

RESPONSE

HACoLA respectfully disagrees with the comments and recommendations stated in Observation No. 5. Copies of the Comprehensive Annual Financial Report (CAFR) provided did not have statements indicating a need to improve internal controls. In addition, HACoLA's independent auditors do take into account management reports issued by the County of Los Angeles such as Board Meeting minutes and operational audits. It is common practice that the Independent Auditor issues a management letter only if it finds weaknesses in its financial reporting and internal controls.

An update on the example noted on the Management Review regarding the budget authority of CDC's Executive Director, the Los Angeles County Board of Supervisors' Audit Committee in a recent meeting with Auditor-Controller's Office on April 19th, 2007 has withdrawn its finding and recommendation and has confirmed that CDC's Executive Director's budget authority is in compliance.

OBSERVATION No. 6: Limited Software Capabilities:

HUD RECOMMENDED ACTION

HACoLA should ensure data cleanup prior to conversion, as this will be crucial to successful implementation. Access should be limited and clearly defined for staff. In addition written procedures and training should be provided to all staff.

RESPONSE

HACoLA will ensure data cleanup prior to a new system conversion which will also be an ongoing process to ensure accuracy of data. Proper levels of access

will be defined for each staff. In addition, written procedures and training will be provided to all staff.

OBSERVATION No. 7: Investment of Excess Cash:

HUD RECOMMENDED ACTION

HACoLA should clarify the programs and maintain separate lists of investments for HUD and non-HUD funded programs, and provide both lists during future review.

RESPONSE

In accordance with Governmental Accounting, HACoLA has been maintaining and will continue to maintain its investment portfolio based on Funding Source by Fund which includes the designation of the funding agency, either HUD or Non-HUD. HACoLA agrees that in future reviews, we will provide an investment schedule that will categorize investments according to HUD and non-HUD funded programs.

OBSERVATION No. 8: Fidelity Bond Coverage:

HUD RECOMMENDED ACTION

HACoLA should communicate with the local field office for further assistance to ensure adequate insurance coverage is maintained.

RESPONSE

HACoLA purchases crime insurance in the amount of \$10 million with a \$2,500 deductible, which is well above standard insurance limits. We do not list it as a fidelity bond coverage since industry standard now refer to it as a commercial crime policy which covers, employee dishonesty including coverage for faithful performance of duty, forgery and alterations, as well as theft, disappearance and destruction. Under general liability, HACoLA carries errors and omissions at a \$10 million limit with a \$500,000 deductible. HACoLA is a self insured agency, we feel that our levels of coverage are more than adequate and will seek HUD's guidance as needed.